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Year-End Tax Planning for farmers

The best time to plan for your 1953 income tax is before 1953 is over. It's to your advantage to know what you can do to plan for legitimate tax savings. Here are some tips on year-end tax planning for farmers.

by John C. O'Byrne

- It's to your advantage to plan 1953 income taxes while it's still 1953. January will be too late.
- Estimate your 1953 tax status now. Then "plan" the remainder of the year to achieve the lowest tax burden and to prevent arguments about the tax return.
- Check with your local lawyer and tax adviser while there's still time to follow their advice.

Records . . .

Keeping adequate records cannot be overemphasized. If you haven't kept complete records, review now and write down any outside income received, savings bonds redeemed, interest on savings accounts, casual sales of property, cooperative dividends, benefit payments, pay-back of items previously deducted, etc.

Make careful lists of all items that might be deductible—business, nonbusiness, personal. Do it before you forget them. A dollar deducted saves at least 22 cents in federal tax—more as your income goes up; over 50 cents on each dollar of net income over $12,000.

Check: travel expenses including meals and lodging, expenses reimbursed by employer, costs of renting property, expenses of royalty income, business expenses (including part-time business). All of these can be deducted, and you still get an additional deduction of 10 percent of adjusted gross income.

Check also: items purchased upon which you've paid retailers' excise or sales tax; gasoline tax and other taxes paid; credit purchases with interest or definite carrying charges; interest payments on any kind of loan; medical costs (these range from toothpaste for the family to your operation); all gifts to church, charity, schools, etc.; accounting, legal, investment fees; alimony; uncollectible debts; costs of doing your job not paid by employer; safe deposit expense; losses by theft, fire, storm; serviceman's decorations, insignia; and similar items. Some of these are federal deductions, some state, some both. Some may not be deductible in any particular case but should be checked.

Any items, other than inventory property, sold during the year should be rechecked for cost, sales price, dates of acquisition and sale and expenses of sale.

Records on breeding animals must show they were *held* for breeding purposes 12 months or more. Depreciation records on purchased breeding, dairy and draft livestock are vital.

1953 vs. 1954 . . .

Lower tax rates are scheduled for 1954. So check your estimated income and deductions for both 1953 and '54. It may be advisable to push receipts or sales into January rather than add income for 1953. Many deductible items can be taken now by paying or accruing them, or they can be pushed into January by holding up purchase or payment. You can push up or delay purchases of feeds, fertilizers, machinery, repairs, etc. Consider, too, the items you plan to sell; is it better to take the gain or loss now or in 1954?

Check on the feasibility of switching payment or receipt of such items as: bonus, compensation, fees, interest, rents, medical expenses, charitable contributions, even alimony.

Farmers must file a declaration of estimated tax by Jan. 15 or a final return by Jan. 31, 1954, on their 1953 income. If the estimate is filed by Jan. 15, the final return is due by March 15.

Head of Household . . .

This was new in 1952. Lower tax rates are used by an unmarried person who maintains as his home

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a household which is the principal place of abode of unmarried children, grandchildren or stepchildren. Special rules apply for married children and certain other dependents. The status must exist for the full year. Thus, 1953 must be checked and plans made to obtain or keep the status for 1954. The fact that you can be a "head of a household" next year may be a good reason to push income to 1954.

The rates for a head of a household are about halfway between rates for married couples and those for a single person.

Exemptions . . .

A dependent can earn $599.99 without paying a tax and still give you an exemption; a penny more, and you lose it. If your net taxable income is $4,000, losing the exemption will cost you about $150 in additional tax. You must provide *more than half* the dependent's support; you may be asked to prove it—keep good records.

You get an exemption for child or spouse if birth or marriage falls on Dec. 31, 1952, or before. If you become 65 on Jan. 1 or before, you get the extra exemption for 1953. These are factors to consider in estimating your tax status for 1953 and '54.

Standard Deduction . . .

Make a check to compare estimated itemized deductions with the standard deduction (10 percent of adjusted gross income or $1,000, whichever is lower). If the itemized deductions are low, you might take the standard deduction this year and push interest, medical costs, charitable gifts, etc. into January to be itemized next year. If the itemized deductions are high, you could pay some of next year's now, itemize this year's deductions and plan to take the standard deduction in 1954.

Medical Expenses . . .

Tie medical expenses in with standard deduction for 1953 and '54. You can take *all* medical costs (not only in excess of 5 percent of adjusted gross income) for you *and* your spouse if you *or* your spouse is 65 on or before Jan. 1. If one of you will be 65 next year, maybe you can postpone payment until 1954. The doctor might be happy, too—lower tax rates scheduled for next year.

Contributions . . .

The limit for charitable contributions has been raised to 20 per cent of adjusted gross income. Check gifts made so far. Amounts over the limit can't be deducted and should be saved for next year.

Consider giving property instead of cash. Say you have a good camera that cost $50 but is worth $150. Give it to the church to sell. You get a $150 deduction and no $100 gain. If you sold it and gave the money, the $100 gain still is taxable to you. So, too, with stocks, bonds, land, etc. Be careful about charitable gifts of items that you raised; check with your tax adviser about these.

Casualty Losses . . .

Losses from fire, theft, storm, flood, lightning, freezing and other casualties are deductible in full—even though the loss is personal; car, house, TV set, summer camp, etc. Now, any excess loss can be carried back to reduce last year's income and forward to offset income for the next 5 years. You *must* have records to show the value of property before and after the loss and the cost of repairs.

Sale of Residence . . .

If you sell your principal residence and buy a new one within a year before or after the sale (or build and occupy a house within 18 months from the sale), you don't have to pay tax on any gain that goes into the cost of the new house, though any excess is taxed. This saving should be planned. Records are required because a report must be made with the tax return even though you do not report the gain. When the residence is a part of a business or a farm, the tax saving still applies. But the residence portions must be separated out from the farm or business. The tax saving does not apply to the farm or business —only to the residence itself.

No loss is allowed on the sale of a residence unless it has been converted to rental purposes. To take advantage of such a loss for tax purposes requires careful planning.

Sales of Property . . .

Sales of land and certain other property used in the farm business and held for more than 6 months can be timed for tax advantage. Losses on some sales must be used first to offset capital gains, only the excess being used to offset ordinary income. You may save taxes by bunching loss sales in one year and gain sales in another because the losses would be deducted in full and the gains included at half with no offset.

Sales of capital assets should be checked to offset gains against losses, nonbusiness bad debts, worthless stocks, etc. Many of these can be taken as easily in one year as another. Check out the year for gains and losses. Perhaps a sale this year will offset a gain or make a gain that can be taken tax-free by using up a loss.

Examine the "holding period" for any asset you plan to sell. A capital or business asset acquired on or after July 1, 1953, that will sell for a gain probably should be held until 1954. If you sell it this year, all the gain is taxed. But after holding it more than 6 months, only half the gain is taxed.

Property Exchange . . .

Decide whether to sell farm equipment and buy new equipment or whether to make a trade-in. Trades usually will prevent taxable gain on the sale but also give lower depreciation for the future. Outright sale and new purchase recognizes a gain, but gives higher future depreciation. Whether you sell at a loss or make a trade depends upon the nature of the loss and what the tax results will be. Usually, on business property held over 6 months, the gain is capital gain, while loss and depreciation offset ordinary income.

If you're planning to sell your farm and buy other productive real estate, an exchange might prove a tax saver to you.

Capital Gains . . .

Long-term capital gains still go in at 50 percent of the gain. Top tax rate for 1953 is 26 percent—scheduled to drop to 25 percent for 1954. Since the top rate applies only when income reaches $14,000 net ($28,000 on joint returns), most people will pay at regular rates on half the gain.

Consider the advisability of taking capital gains (long or short term) in 1954 instead of 1953. If gains are to be taken in 1953, are there losses that can be used to offset the gains? Capital losses offset gains and can offset up to $1,000 of regular income. Excess capital losses carry over to the next 5 years to offset capital gains and up to $1,000 regular income in each year.

Check on the holding period of a capital asset before sale. If held for 6 months or less, the full gain is taxed, not just half.

Livestock: Law now provides for capital gains on breeding, dairy and draft livestock held for 12 months or more. Depreciation on purchased animals must be recognized. If you carry these animals in inventory, consider taking them out and setting them up on a depreciation schedule. Keep records to prove which animals are held for these purposes and for how long.

Unharvested crops: Law now gives capital gains treatment to growing crops when sold with the farm. But the cost of raising the crop is subtracted from sale price, not deducted from income.

Timber: Present law gives special capital gains treatment on cutting of timber to a taxpayer who owns or has a contract right to cut it. Check your timber transactions with your lawyer and tax adviser.

Rents, Royalties . . .

Deductions are especially valuable here since you get these deductions plus the standard deduction. If you rent a room or part of a house to someone, it entitles you to deduct a prorata share of certain house expenses and depreciation. Often, expenses to produce rents or royalties or hoped-for income are paid before the income comes in. They still are deductible costs. Keep records on everything paid out on rental property or to produce present or future rents or royalties.

Installment Sales . . .

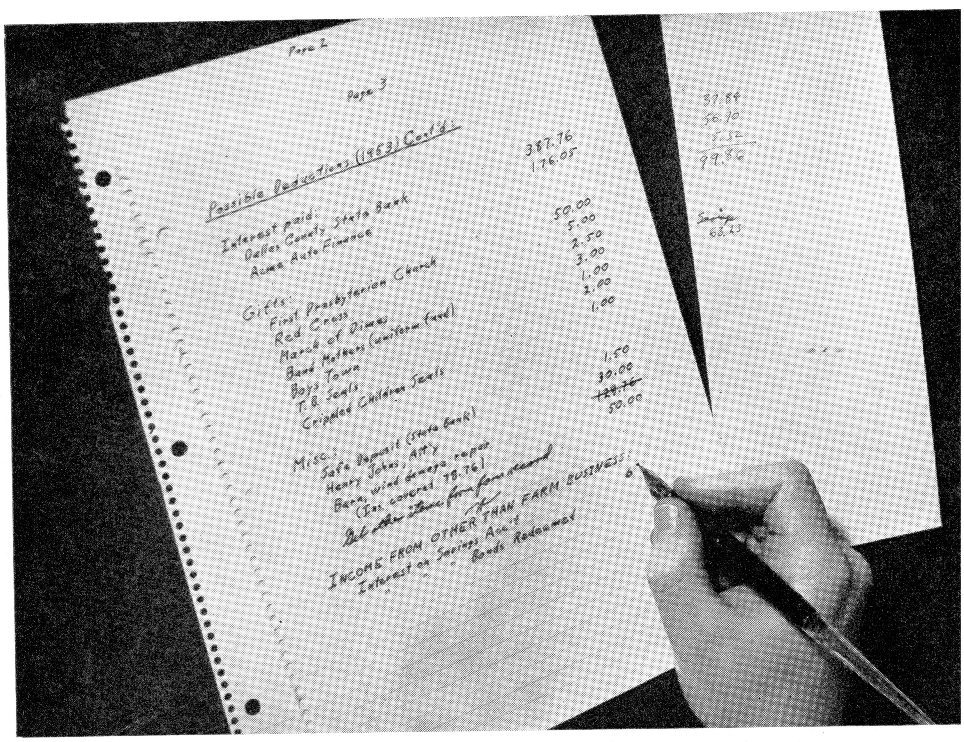
Sales of personal property for more than $1,000 (no limit for dealers) and all sales of real property can be made on the installment basis to spread income over several years. Any sales made before the end of 1953 should be checked to see if all of the gain is to fall in '53 or be spread out over several years. Installment sales must be set up according to special tax rules.

Grain Bins . . .

The 1953 law gives a special tax break to a farmer who erects new grain storage facilities or enlarges existing facilities for storage of grain produced by him. If such construction takes place in 1953 or later, the farmer can write off the entire cost over a period of 60 months. There are technical details to be checked with your tax adviser.

In Summary . . .

No brief report, or course, can suggest all areas of year-end tax planning. We have mentioned a few of the important ones to be considered by a cost-basis, calendar-year taxpayer. Accrual or fiscal year taxpayers can use the same ideas, though applications may be slightly different.



Keeping adequate records cannot be overemphasized, says the author of this article. If you haven't kept complete records, check back now and write down any outside income received, savings bonds redeemed, interest on savings accounts, etc., and, of course, possible exemptions.

Time spent now to re-examine the tax results of 1953 will be time well spent. Don't hesitate to seek legal advice during the remainder of the year. Year-end advice is part of the job of preparing tax returns.

Prepare your 1953 return early if you can. If you can do it before the rush, you're assured of more time to seek out possible savings. And you'll have more time to study particular problems and to obtain additional information, if necessary.